THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions Governmental Finance United States Securities

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General Business Conditions

THE course of business during October has been disappointing, in view of the hope that with the change of seasons the upward movement would be resumed. This hope had its basis in the increased payroll disbursements of the industries and the improved cash income of agriculture, which were counted upon to supply the purchasing power for a Fall upswing such as might readily follow the recession since mid-Summer. Taken by themselves the figures of the increased money income of factory labor and the farmers are very impressive. The Department of Labor calculates that in September industrial payrolls were $64,000,000 greater each week than at the low point of the depression, while the cash income of the farmer is estimated by the Standard Statistics Company to be 16 per cent larger than a year ago (including the various bonuses for crop curtailment), despite the drop in farm prices since the middle of July.

Encouraging as the figures are, however, it has been necessary to take into account that these increases in money income have been offset in part by the reduced purchasing power of the money, due to the higher prices for goods bought; and that consumers whose incomes have not had any compensating increase have had their purchasing power diminished. Evidently this is a factor in trade, for retail distribution, since the price advance reached important proportions, has not come up to expectations. During September department store dollar sales were but 2 per cent larger than a year ago, and chain store and mail order sales about 5 per cent larger. With prices 15 per cent higher, the volume of goods moved accordingly was smaller, and judging by preliminary reports, October has not brought much improvement. Sales of the New York City department stores in the first half of the month were 2.2 per cent under 1932.

These figures show that the movement into consumption of the merchandise bought for Fall has been slower than expected, and merchants have been more concerned with moving the goods they have on hand than in making new commitments. New business in the wholesale markets accordingly has been slack. Factory operations have held their own where unfilled orders are still substantial, but in a number of lines supplying goods of everyday consumption the backlog has been worked down to the point where curtailment has become prudent. This is the case in the shoe and tire industries, and operations in the textiles are spotted with the trend inclining downward. The Federal Reserve Board reports that a decrease occurred in factory employment during the first half of October.

Building Improving

Contrasting with these reports, the building figures are the best in a long time. The public works program is gathering speed, and contracts awarded in this classification during the first half of October exceeded the same period last year by 57.5 per cent, according to the F. W. Dodge reports. This is responsible for a gain in total building awards of 26.1 per cent. From month to month building is showing a contra-seasonal increase, and this is precisely the quarter where expansion of activity is needed, to give employment that will provide purchasing power to support the receding consumer goods industries.

Otherwise the heavy industries continue to drag. Steel operations were supported in the forepart of the month by orders for shipments to take effect before the fourth-quarter price advances, but dropped off sharply thereafter to 26.1 per cent of capacity. Automobile output holds at heartening figures compared with previous years of the depression, but has fallen about 40 per cent below the August rate, responding to the seasonal decline in sales, and the industry has given itself over to preparations for new models. Production of coal and electric power have not made the usual sea-

sonal gains, and the increase in car loadings is no more than seasonal.

This halt in the recovery movement may be no more than the breathing spell between two periods of general buying and advancing business, such as is necessary to permit absorption of goods produced in excess of immediate needs. Undoubtedly many industries were overstimulated by the rising markets during the Spring. Business men were on notice that prices were going up, and naturally they covered forward needs and increased their stocks. It was equally natural that after such a movement there should be a recession. The country has had sufficient experience with such upswings and reactions of business to understand their natural character.

Meanwhile the gains which have been maintained are deserving of emphasis. Since March 3,600,000 people have been put back to work, according to the Federation of Labor, and industrial production in October was 25 per cent over March after allowing for seasonal variations, and 10 per cent over last year. Of course it is the intention of the Administration to keep the recovery movement going to the limit of its ability, and a period of interruption is no evidence of failure. The policy of loaning Government funds against the good assets of closed banks will make a large body of bank deposits available as purchasing power, and should have a stimulating effect.

Uncertainties in the Outlook

While the foregoing view counsels patience, feelings of unsettlement and uncertainty have nevertheless been increasing. It is common observation that the confusion which has developed during the reaction of the past three months has created anxiety, and has raised more doubts as to the nature or sufficiency of the recovery program than had previously been entertained. The prevalence of labor troubles is disturbing, and with farm prices declining State officials in the farm areas have assumed a position of antagonism to N. R. A. policies, giving an appearance of open revolt which unsettles business sentiment elsewhere. It was for the purpose of reassurance that President Roosevelt made his radio address on October 22, outlining the progress of the recovery program, repeating in very plain language the intention of the Administration "to increase the rise (of prices), and to extend it to those products which have as yet felt no benefit," and announcing the departure in monetary policy which we describe subsequently in this Letter.

The weakness in commodity prices, which prior to the President's address dropped quotations of the sensitive staples to the lowest level since May, and reduced the gain in these commodities over the March low point to 38 per cent, according to Moody's index, has added gravely to the uncertainties. The experience of recent months has impressed upon everyone the lesson that the recovery cannot proceed far or lastingly except as it leads to balanced relations among the groups in the economic system, for if any main group of the population falls out of line its loss of purchasing power will limit the market of all other producers.

Since the middle of July the farmer has lost purchasing power through the decline in the prices of his products, which on July 15 stood at 76 per cent of the pre-war average but had dropped to 69 per cent on October 11, while in the same period prices of goods the farmer buys rose from 107 per cent of pre-war to 116.5. These diverging trends, brought to a climax by the sharp break in wheat to below 70 cents, in cotton to below 9 cents, and in all the grains and to lesser degree in other farm products, not only enlarge the most important disparity existing in economic relationships, but arouse fears of renewed demands for inflationary action, and so disturb confidence. The words of Secretary Wallace nearly two months ago are recalled, when he stated that with price relationships then existing the increase in the farmer's cash income had been absorbed by the higher retail prices, and that within the next three months farmers "are likely to get impatient, and demand a strong dose of inflation."

Relation of the Dollar and Prices

It is unfortunate, and may lead to misconceptions, that the price decline was associated in point of time with a reviving confidence in the dollar and rising quotations for it in the foreign exchanges. Some may draw the inference that commodity prices directly follow the dollar, and that a rise in its exchange value will therefore depress prices or prevent them from recovering.

This is a view for which there is only one supporting factor which is that speculative or protective buying may go into commodities in expectation of a declining dollar, and that these holdings may be liquidated if the expectations are disappointed. However, such transactions, while very disturbing, can have only a temporary effect upon the markets. They are in essence the growing pains of stability. The greatest price decline was in wheat, and the quotation on the dollar in the exchanges has no direct effect upon the price of wheat, which sells in this country much above the world level, and hence is no longer an export commodity of importance.

We expressed in the August number of this Letter the opinion that the significance of the decline of the dollar in the foreign exchanges

had been misinterpreted, in that it was wrongly considered a direct cause of higher prices, and that its depreciation was therefore an insecure basis upon which to rest the price advance. The outcome has proved this, and we are moved now to state the converse of the opinion, which is that an advance in the dollar is an inadequate reason for a price decline. Consideration of the factors involved will readily show why this is so. If the dollar strengthens in the exchanges the reason is that dollars are in demand, which signifies that capital is moving to this country. Capital coming here will seek investment, promote business, and operate in the long run to advance the price level, not to lower it. Moreover, if capital from abroad more confidently seeks investment in this country it is likely that capital already here, now held in idleness for distrust of the dollar, may also seek investment, providing industry with funds to buy capital goods, and thus strengthen the economic situation at its weakest point.

If on the other hand, our policies are such as to frighten capital, to weaken the dollar, and to stimulate buying of commodities through the agency of fear, will this lead to any more lasting advance in prices than the previous rise? If a rise occurs on such a basis, will not the inevitable reaction have to be faced, as before? And what of the temptation to use more and more inflationary measures to keep the fear alive and the speculative movement going?

It is apparent that many business men are asking themselves these questions, and that uncertainty upon this and other factors in the situation is interfering with the recovery.

Reasons for the Price Decline

The price drop may readily be explained in terms of the decline in business. In both wheat and cotton buyers had covered their requirements far ahead on the earlier advance, and had then found the demand for their products from the consumer below anticipations. Cotton goods and flour markets were dull, and merchants in all lines give little support to commodity markets when they are chiefly occupied in moving goods with which they are already stocked. The normal pressure of commodities for sale depresses prices under these conditions.

Another explanation of the price decline is that it may result from disparities among prices and other maladjustments in economic relationships, which interfere with the exchange of products, disrupt trade, reduce consumption, and so cause the sale at sacrifice of commodities that are in over-supply. We have mentioned the disparity between farm and other prices, and have also given the retail sales figures, which suggest a lack of balance between prices to consumers and consumer income. Department store prices advanced another 4.2 per cent during September, according to the Fairchild index, and on October 1 stood 23.5 per cent above the low. Retail food prices show little change at about 19 per cent up from the bottom, and the cost of living as calculated by the National Industrial Conference Board for September was 9 per cent higher than in April. The Board likewise calculates that the real wage of industrial wage earners has declined 2 per cent since July, after an advance since April, the rise in prices having exceeded the rise in wages, and thus reduced purchasing power.

The 89-cent and $1.25 Shirts

In explanation of the advance in retail prices a New York department store published recently an advertisement citing shirts of the same material, which sold a few months ago at 89 cents, and today at $1.25. Of the 89 cent shirt it states that the man who grew the cotton for it lost money; that the workers in the mill and the girls who made it received starvation wages; and that their employer and the retailer lost money. The conclusion is that it was "a bargain that threatened the very structure of this country." Of the $1.25 shirt it says the workers now receive a living wage, and do better work, and that "it is a sound bargain, sound for your welfare and sound for the welfare of the country."

The above is a fair statement in behalf of producers, but it must also be considered that the relief for them has been given at the expense of consumers, who in the case of each shirt have 36 cents less to spend for something else than they would have had if the price had remained at 89 cents. This is only a shift of purchasing power from one side of the transaction to the other, and whether any real gain will result depends upon several factors that are left out of the account. What about the relative positions of shirt-makers and shirt-buyers at the old and new prices and the secondary effects all around? These are practical matters which have to do with the question whether the price and wage changes increase business.

Over and over again—until we fear our readers weary of it—we have repeated that in the last analysis all business is an exchange of goods and services. The word "trade" describes it. Trade depends upon the relations between what each person has for sale and what he wants to buy.

It is generally recognized that the most important maladjustment of relations in the business world is that between primary or rural products on the one hand and transportation costs and urban products and services

on the other. Farm products are considerably below their 1913 level and the others are well above. Obviously there cannot be a full volume of trade on that unequal basis. In this situation either a rise in the former or a fall in the latter tends to bring about better trading relations, while a uniform rise all around would do nothing for trading relations.

We do not know whether the shirt referred to was, or is, high or low in relation to other goods but the purchasing power of shirt-buyers depends upon this relation. Since textile goods generally have risen and farm products generally have declined since the textile codes went into effect, the reaction from the rural districts has been unfavorable, and has suggested a repetition of the three queries which we ventured to mention last month, to wit: (1) If higher prices brought about by increased costs, due to higher wages and restrictions upon working time, offset the efforts to increase the purchasing power of the farmers, will this necessitate an extension of pig slaughter and acreage curtailment beyond the original intentions? (2) Will such extension of the policy of agricultural curtailment, and its effects upon the costs of living, necessitate a further increase of wage rates in the urban industries and transportation service? (3) If so, where will be the end? Moreover cannot the required equilibrium be obtained just as well upon a basis of an abundance of all the comforts of life as upon a basis of general scarcity?

Reducing Railroad Fares and Steel Prices

Among experienced business men, and also among the Administration agencies entrusted with the recovery program, some evidently take the view that the way to hold or increase business is to reduce prices and charges. The Western railroads have announced reduced passenger fares and the elimination of the Pullman surcharge for a period of six months beginning December 1, and the Eastern roads are studying similar proposals. Moreover, upon the representations of Commissioner Eastman, the Federal railroad co-ordinator, the manufacturers of steel rails have reduced their prices from $40.00 a ton to $36.375, and this is expected to release orders for about 1,000,000 tons of rails and fastenings which Mr. Eastman has brought together.

Russian Recognition

The invitation extended by President Roosevelt to the Russian Government for a conference is possibly a step toward a resumption of diplomatic relations. The absence of such relations undoubtedly presents an abnormal and unsatisfactory situation, although it has not prevented business activities in Russia by American citizens who were willing to carry them on without asking their Government to assume any responsibility in their behalf. Obviously it would be better to have entirely normal relations between this country and Russia, and the chief objection to it has been the intimate relations known to exist between the Russian Government and the Third Internationale, a Communist party, avowedly devoted to revolutionary purposes. Full diplomatic relations have the effect of giving the representatives of a foreign government a privileged status, which obviously an enemy may abuse.

Probably few persons would argue that recognition of the de facto Russian Government should be withheld merely because the social institutions or economic system of Russia are different from those of this country. Their institutions and laws are no concern of ours so long as only their own citizens are subject to them, and if the citizens of other countries are authorized to conduct business there the conditions may be properly defined, but within the rights thus defined they should be assured of protection.

In calculating the probable results of the negotiations it is well to bear in mind the often-overlooked truth that trade is essentially an exchange of products and services, and that Russia's ability to buy exists almost wholly in her natural products, which for the most part are similar to our own. It will be something of a problem just how a direct trade of large volume can be worked out, or even a triangular trade in the present state of the world relations.

Money and Banking

In his radio address of October 22 the President re-affirmed in unequivocal terms the Government's policy with respect to raising commodity prices and announced that in furthering this policy the Reconstruction Finance Corporation would be authorized to buy gold newly mined in the United States at prices to be determined upon after consultation with the Secretary of the Treasury and the President, and also, whenever necessary to the end in view, to buy and sell gold in the world market.

Insofar as the policy with respect to prices is concerned, the President's statement added little to what he has said on previous occasions, and particularly in his message to the American Delegation in London last July. He reiterated his pledge to restore prices, and stated that the time and level of permanent revaluation of the dollar in terms of gold must await the achievement of this end. When prices are restored to a level regarded as satisfactory it will then be the policy to "seek to establish and maintain a dollar which will not

change its purchasing and debt-paying power during the succeeding generation."

All of this having been said in substance before, the chief significance of the repetition lies in the re-endorsement of the policy of price control after six months' experience, and in the positive language in which the promise to raise prices is couched. The President said in part:

I am not satisfied with the amount or extent of the rise (in farm prices), and it is definitely a part of our policy to increase the rise and extend it to those products which have as yet felt no benefit. If we cannot do this one way, we will do it another. Do it we will.

The New Gold Policy

Probably few persons will disagree with the general proposition that there ought to be some control over the fluctuations of the dollar in terms of foreign currencies. These fluctuations are a serious obstacle to foreign trade, and they exert a disturbing influence on internal trade as well. The gyrations of the dollar are widely publicized; they have a pronounced effect on the stock and commodity markets, and they tend to keep business in a state of constant uncertainty. Whatever doubts may be entertained as to the desirability of attempting to fix arbitrarily a permanent value of the currency, it seems clear that the dollar ought not to be the football of every vague rumor or sudden whim of the market. Great Britain, shortly after her departure from a gold basis, saw the wisdom of exercising some degree of supervision over the pound sterling, and established the Equalization Fund for the purpose of smoothing out temporary and disturbing movements. The United States has the same reasons for desiring to control the dollar, and if the new gold buying policy is directed solely towards a control of this character it seems unlikely to incur criticism.

The implication, however, of the President's address is that the new device will be used not merely to control exchange but also as a means for raising prices. Should this prove to be the case, there is no doubt that the policy will provoke a wider difference of opinion.

The Effect on Prices

The question may be asked, "how does the purchase of gold by the R. F. C. at varying prices affect the price level of commodities?"

The answer is that there is no certainty that it will. The problem of the relation between the price of gold and the price of commodities is a complicated one, and the effects of attempting to regulate commodity prices by changing the price of gold are to a large extent unpredictable.

There is no necessary direct connection between the price paid for an ounce of gold and the price paid for a bushel of wheat, a bale of cotton, a pair of shoes, or any other article of use and consumption. Commodities are not exchanged for gold, but for currency and bank deposits. Changing the price of gold, therefore, does nothing to affect the price of commodities unless in some way or another the change provides the public with both more money and a desire to spend it. It is true that if the price of gold is put up the monetary value of the gold reserves will also be increased, and this will enable the banking system to issue more currency and credit. But this will not affect the price of commodities unless the public is in a mood to exploit this added currency and credit-making capacity, and go out into the markets with it and buy things. Without this willingness to use and expand credit, and to keep money circulating, it would be possible to double, triple and quadruple the price of gold without affecting the purchasing power of the money which people have in their pockets and in their banks. It is this problem of getting currency and credit into use that has been the chief difficulty all along. There never has been any question as to the adequacy of the gold supply, or as to the ability of the banking system to turn out all the credit and currency necessary to finance a complete business recovery.

It is, therefore, in its psychological aspects that the new policy is likely to be most effective. If the Government, for instance, raises its bid price for gold, and this is interpreted as representing the Government's belief that the dollar is too dear, and that the ultimate level of revaluation might be lower down, people may be induced to exchange their dollars for foreign currencies, or for stocks or commodities, in which case the exchange value of the dollar will tend to fall and the price of stocks and commodities tend to rise. If the Government is prepared to go far enough, it is quite possible that in this way it may be able to raise prices, at least temporarily. This is particularly true in the case of a purchase of gold in foreign markets which would involve a sale of dollars in payment therefor.

All of this, however, would be without taking account of the possible repercussions of the new policy in foreign countries. Some of these possibilities should be given consideration.

The very act of changing the value of one's own currency may set up conditions in other countries which would nullify the effect of that change. For example, action by one country to depreciate its currency may induce other countries to establish high tariffs or embargoes against that country's export goods, thus throwing these goods back on the

home market and causing a fall instead of a rise of prices. Again, action by one country in depreciating its currency may lead to the further depreciation of other currencies, thus possibly promoting a race in currency depreciation. Or, in case other countries stand firm against such debasement, the competition of the depreciated currency may simply beat down prices in other countries without causing a rise of prices at home. It will be recalled that Great Britain, after her departure from a gold basis, effected a substantial de facto write-down in the gold value of her currency, without, however, experiencing any rise of prices whatever. What happened was that the decline of the pound spread demoralization throughout the world and caused a fall of prices in other countries.

The Problem of Price Control

It is one thing, moreover, to raise prices and another thing to keep them up, and it is on the question of the Government's ability to accomplish the latter that the experts will be found especially to disagree. To the orthodox economist it seems doubtful whether the kind of a price advance that proceeds from currency depreciation can be a good basis on which to build a lasting business recovery. Such a policy seems to him more likely to produce speculation than sound investment of the kind needed to promote activity in the capital goods industries without which no recovery can get very far.

A great difficulty with all attempts to raise prices by currency depreciation is in stopping at just the right point. As long as the dollar is declining it is quite possible that speculation and protective buying may keep prices moving up. As soon, however, as the dollar stops falling, buyers are likely to dump their holdings; then prices drop and there is almost certain to be a renewed demand for inflation to put them up again. Thus currency depreciation tends to become progressive, and there is always danger that once monetary policy has embarked upon that course it will end up by over-shooting the mark and producing, not a controlled price rise, but a new inflation.

There is no reason to doubt that all these possibilities have been weighed carefully at Washington. The President has stated frankly that many aspects of the recovery program are experimental, and he has assured the country that if, after reasonable trial, any given part of the program does not appear to be working out successfully, it will be promptly changed. Thus the policy, to a certain degree, leaves future policies open for alteration in the light of future events. Should genuine business recovery ensue, it may not be considered necessary to press forward the emergency measures.

Experience of Other Countries

So far, no nation has yet attempted a managed currency of precisely the type embodied in the new gold policy, and insofar as the world has had experience with other types of managed currencies the results have not been reassuring. A good many countries, due to forced departure from a gold basis, have been obliged to experiment temporarily with some form of currency control, but usually the desire and effort has been to get back to a fixed gold standard as soon as possible.

Some may point to the British experience since the departure from gold in 1931, during which time the general average of British prices has been comparatively stable, as representing a successful attempt at currency management. This, however, is hardly a comparable case, for the British made no determined effort to raise prices, nor was their Equalization Fund directed primarily at the internal price level, but functioned chiefly as an agency for steadying exchange. A good deal has been said also about the experience over the past two years of Sweden where some conscious effort seems to have been made to control domestic prices even at the cost of a fluctuating exchange rate. It is true that at first sight the stability of the Swedish general price index seems impressive. On further examination, however, it will be found that this apparent stability of the general index conceals some highly significant changes among important individual groups making up the index. What has happened is that the drop in the foreign exchange value of the krona has sent prices of imported goods up, while prices of domestic goods have gone down. In other words, Sweden has been paying more for what she has to buy, and getting less for what she produces, an achievement which, though it may result in little net change in the combined commodity average, is scarcely of a kind to commend itself to the country. Moreover, in neither the British nor Swedish cases has the experience with a managed currency been of long enough duration to warrant any final conclusions, favorable or otherwise, as to its merits.

The Preponderance of Opinion

There is no doubt but that the great preponderance of opinion among economists is adverse to the managed currency idea. There is universal agreement as to the desirability of working towards a stable price level, but most economists feel decidedly skeptical as to the efficacy of purely monetary measures to control prices. Most all will agree that determined efforts in the monetary field can be successful in checking a boom, but there is much less unanimity in the view that purely monetary measures can lift a country out of a de-

pression. In general, economists believe that the best way to achieve price stability is by restraining the booms which are the cause of the later depressions. Insofar as there is need for currency management, they point out that there is already room for a considerable degree of such management within the limitations of a fixed gold standard. By virtue of their open market powers, central banks can and do contract and expand the credit base, depending on whether they wish to check or promote a rise of prices. To the extent that prices are responsive to monetary influence, the ability to make credit tight or easy as policy dictates is believed by most economists to afford adequate scope for currency control without resort to the more radical step of altering the gold content of the standard of value, with all the attendant confusion in the foreign exchanges and danger of impairing confidence in the currency.

Difficulties to be Overcome

Some of the reasons why the majority of economists favor a fixed standard of value and are opposed to an attempt to regulate prices by altering the gold content of the currency unit may be summarized as follows. Whether the reader is in sympathy with these reasons or not it is important to give them consideration in order that all may have a clearer understanding of the problem with which we have to deal.

1. The practical difficulties of price control discussed in the paragraphs under sub-heads, "The Effect on Prices" and "The Problem of Price Control."

2. Altering the gold content of the currency on the basis of internal prices would involve instability of foreign exchange rates. This would be a serious handicap to international trade, but, more than that, it might lead to competition in currency depreciation. In a world of unstable exchange rates there tends to be constant misunderstanding over alleged attempts on the part of different countries to unduly influence one another's price levels. The frequent accusations that we now hear that this, that, and the other country is deliberately depreciating its currency for the purpose of stealing our foreign markets, and that we must depreciate our own to save ourselves, might become a permanent feature of the international situation.

3. There is the danger of political influence to be considered. Once it became known that the control of prices was lodged in some Government body, the demands of special interests upon that body would be enormous. There would probably be prompt action to check every fall of prices, while the pressure to permit advancing prices to run their course would be well nigh irresistible. Thus there would always be danger of inflation.

4. With the uncertainties involved in an experiment of this kind, it is a question as to whether it would be possible to re-establish the confidence necessary to promote the reinvestment of capital in industry. Capital is timid, and it remains to be seen whether under a fluctuating currency it will move forward confidently into productive employment, or continue to occupy itself chiefly in trying to find protection against real or fancied dangers of currency depreciation.

Refunding the Fourth Liberty Loan

A development of major importance in the money market additional to the President's declaration on monetary policy was the action of the Government in calling $1,900,000,000 of the Fourth Liberty Loan for payment April 15th next, combined with an offer of immediate exchange of both called and uncalled Liberty Fourths for a 10-12 year bond issue, bearing interest at 4¼ per cent for one year and 3¼ per cent thereafter. This move by the Government marked the first stage in the program of refunding the $6,268,000,000 of the Fourth Liberty Loan now outstanding and maturing in 1938, the Government having passed up the first opportunity to call a portion of this issue on April 15 last.

Coincident with the announcement of the call and exchange offer, the Government offered $500,000,000 of the 4¼—3¼ per cent 10-12 year bonds for cash subscription at 101½. Books on the cash offering were closed in six days and the offering was over-subscribed more than four times, demonstrating the strong demand for Government issues. The offer to exchange Liberties has been held open, and it was announced that $617,000,000 has been tendered up to this writing.

The Growth of Excess Reserves

The continued demand for Government issues in the face of mounting Government expenditures and uncertainty regarding the currency may be attributed to the enormous accumulation of excess funds resulting from the Federal Reserve purchases of Government securities. During the four weeks ended October 25, the Reserve Banks bought $125,000,000 of these issues, making a net gain of nearly $350,000,000 in their portfolio since the program of accelerated buying was put into effect in August, and bringing the total of their holdings to a new record high point of $2,400,000,000.

Though the avowed aim of such purchases has been to pump funds into the market in the hope of encouraging a larger expansion of member bank credit, the result to date has

fallen far short of the purposes in view. Cash reserves of the member banks have been raised to levels substantially higher even than during the boom years of 1928-29, but the demand for bank funds has failed to increase. In fact, loans and investments have fallen somewhat since mid-Summer, while the volume of deposits has increased only a little. As a consequence, the principal accomplishment of Federal Reserve policy has been to build up excess reserves to still higher levels, around $850,000,000.

During recent weeks, the Reserve Banks have been tapering off their purchases of Governments, as evidenced by a drop in their weekly investments from an average of around $35,000,000 in September and early October to $31,000,000 in the week of October 18, and to $24,000,000 in the week of the 25th. Apparently, the change reflects the passing of the seasonal credit peak around the middle of October rather than any fundamental departure from the easy money policy, a further manifestation of which was the reduction in the rediscount rate of the New York Reserve Bank from 2½ to 2 per cent. Nevertheless, the prospect that the Reserve Bank program of buying Governments is undergoing modification is one that will be received with satisfaction. The policy has not succeeded in getting a larger volume of credit into use, and has resulted in so great an increase of bank reserves as to arouse apprehension as to the ability of the Reserve Banks to retain control of the situation once a speculative movement gets under way.

Considering the fact that the present bank reserves are already large enough to support a speculative boom greater than that of 1928-29, one wonders where the basis lies for the contention that the devaluation of the dollar is necessary to restore prices. If, on top of the existing superfluity of banking reserves, the potential credit making power of the banking system should be still further increased by devaluation, what may we not expect in the way of a new inflation bigger and better than ever before?

Evidence for the Bankers

In the October issue of this Letter, we gave some attention to accusations that bankers were unduly critical of applications for credit, and that an unwillingness on their part to extend credit in meritorious cases was delaying business recovery. Concluding our discussion of the subject we said:

> By and large, however, we have no hesitancy in challenging the contention that deserving borrowers are being hampered by inability to secure credit. Where such charges have been made and investigated the propositions almost invariably have been found to be of a kind not warranting banking accommodations.

Since the above statement was written, striking evidence of a confirmatory nature has come to hand. In September, in response to charges of the familiar character, and an appeal from the local N. R. A. organization for aid, a group of New York banks formed a credit committee to work with the N. R. A. in passing upon applications for credit and in endeavoring to see to it that all deserving cases got attention. This committee has just rendered a report which has been made public by Mr. Grover A. Whalen, Chairman of the local N. R. A.

The report indicates that the committee since its creation has examined 170 applications. In 137 of these cases requiring closer scrutiny, only 4 were found eligible for bank credit. Ten cases "which may possibly be entitled to credit" were referred back to the banks of the respective applicants and are to be investigated further.

In giving out the results of the committee's work, Mr. Whalen made the following statement which covers the situation pretty thoroughly:

> The committee has been sympathetic to all applicants and has given their cases a thorough review. In a large majority of cases (over 85 per cent), the applicants in question, due to the depletion of their own capital by the years of depression, required permanent working capital (new partners or stockholders), which commercial banks do not and cannot furnish. The investigation made by the committee has already disclosed that the statements heretofore appearing in the press to the effect that there was a dearth of credit were unwarranted and unjustified.
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> It is the purpose of the credit committee to continue their work and endeavors and the statement now being made is a preliminary statement so that any erroneous impressions created in the past may be corrected as to the service the banks are rendering the public.

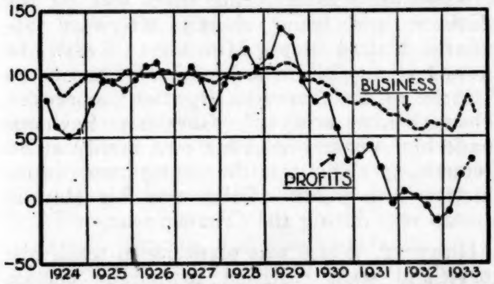
Third Quarter Profits

Reports of corporation earnings for the third quarter, published during the past month, show in a large majority of cases an improvement as compared with the same quarter a year ago. Increasing numbers of companies that had been operating at a loss during 1932, and many during preceding years back to 1929 or even earlier, returned to a profitable basis in the second and third quarters of this year. More dividends are now being currently earned, and there is a definite trend toward resuming or increasing dividends on common stocks and paying up cumulative dividends that have fallen in arrears on preferred stocks. A similar improvement has taken place in the earnings of railroads, and indicates that a considerable number of important systems, which reported deficits for the year 1932, should cover their bond interest and other fixed charges this year, and some will have a substantial margin left for their stocks.

A tabulation of the statements issued thus far by 205 industrial corporations having an aggregate net worth of $7,443,000,000 shows combined net profits, less deficits, of $129,576,000 in the third quarter of this year, as compared with a profit of $86,878,000 in the second quarter and a net deficit of $14,831,000 in the first quarter, while in the third quarter of 1932 there was a deficit of $11,583,000.

The increased number of companies now operating in the black instead of the red is illustrated by the percentage of those making a profit to the total reporting, which rose from 46 in the third quarter of 1932 and 43 in the first quarter of 1933 to 61 in the second quarter and 77 in the third quarter.

The general trend of industrial profits may be seen from the chart below which presents an index, embracing 200 representative corporations in a wide variety of different industries and based on the annual rate of profits return on net worth, together with the Annalist index of business activity. For the third quarter, which is partly estimated, the indicated rate of profits is at the highest level since the middle of 1931.



Quarterly Index of Industrial Corporation Profits and the Annalist Index of Business Activity. 1926=100.

Profits for the first nine months of the year, despite the deficit in the initial quarter, were well above those for the first nine months of 1932, the totals being $200,367,000 in contrast with $30,266,000. A summary for the two periods, classified according to major industrial groups, is given in the accompanying table, which gives the percentage change in net profits and in net worth, and also the annual rate of return.

It is still too early to measure the full effects of the N. R. A. codes upon business profits. Normally the principal factors in increased earnings are an expansion of activity, a reduction of operating costs or a rise of commodity prices. Throughout the depression there have been unceasing efforts on the part of industry to work down costs, both for labor and for capital, with the result that representative manufacturing corporations today can show a profit on a volume of business far below what they considered normal in pre-depression years.

The N. R. A. program definitely contemplated an increase in costs, both directly for labor employed and indirectly for higher prices of raw and semi-finished materials purchased, but anticipated a compensating expansion in volume as a result of increased employment and purchasing power. Of the limited number of companies which have included sales figures in their quarterly reports published to date,

INDUSTRIAL CORPORATION PROFITS FOR FIRST NINE MONTHS

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Nine Months 1932	1933	Per Cent Change	Net Worth January 1 1932	1933	Per Cent Change	Annual Rate of Return Per Cent 1932	1933
1	Autos—General Motors	$ 10,555	$ 81,410	+671.3	$923,803	$860,869	— 6.8	1.5	12.6
9	Automobiles—Other	D-19,320	5,957	+	326,175	248,388	—23.8	......	3.2
17	Auto Accessories	D-2,138	4,335	+	176,430	148,016	—16.1	......	3.9
5	Baking	19,194	16,453	— 14.3	248,564	233,328	— 6.1	10.3	9.4
7	Building Materials	D-8,037	D-2,443	......	158,293	145,718	— 7.9	......	......
11	Chemicals	35,319	49,018	+ 38.8	935,259	893,377	— 4.5	5.0	7.3
5	Coal Mining	D-1,551	D-455	......	92,560	84,303	— 8.9	......	......
5	Drugs and Sundries	5,756	3,703	— 35.7	33,864	25,642	—24.3	22.7	19.3
7	Electrical Equipment	D-2,624	D-4,319	......	718,195	637,279	—11.3	......	......
15	Food Products—Misc.	50,396	55,371	+ 9.9	612,919	545,078	—11.1	11.0	13.5
15	Iron and Steel	D-48,850	D-26,662	......	1,370,205	1,284,767	— 6.2	......	......
8	Machinery	D-2,894	D-1,119	......	100,282	91,185	— 9.1	......	......
6	Mining, Non-ferrous	D-388	563	+	149,016	141,228	— 5.2	......	0.5
5	Paper Products	D-287	1,373	+	72,322	67,454	— 6.7	......	2.7
14	Petroleum	6,121	D-4,443	—	1,007,626	840,495	—16.6	0.9	......
6	Textiles	D-1,807	2,519	+	58,686	48,692	—17.0	......	6.9
5	Tobacco (Cigars)	338	752	+122.5	52,405	43,219	—17.5	0.9	2.3
32	Misc. Manufacturing	D-10,703	7,412	+	522,356	448,620	—14.1	......	2.2
32	Misc. Services	1,185	10,942	+823.4	741,739	655,783	—11.6	0.2	2.2
205	TOTAL	$30,266	$200,367	+562.0	$8,300,699	$7,443,441	—10.3	0.5	3.6

D—Deficit

some had larger sales in the third quarter than in the second, and also larger profits, while with others the larger sales were more than offset by the rise in costs, so that profits were smaller. Before any very definite conclusions as to this question are warranted, it will be necessary to have operating data covering longer periods and based on greater stability in production, trade, prices and other economic conditions.

Railroad and Utility Earnings

Railroads enjoyed an improvement in gross and net income during the third quarter as compared with a year ago, although at a declining rate. Gross freight and passenger revenues, which in the first half-year averaged 10.6% below the same period of 1932, were in July 24.8% above last year, in August 19.1% above and in September (partly estimated) 7.2% above. Passenger revenues in August turned upward as compared with the corresponding month of the previous year, the first time that this has happened in any month, with one exception in 1929, since May, 1926.

Net operating income, after transportation and maintenance expenses and taxes but before interest and other fixed charges, in July was $64,307,000 against $11,287,000 last year, in August $60,978,000 against $27,985,000, and in September (partly estimated) $60,500,000 against $49,647,000. On the basis of results for the first nine months, it is estimated that in the full year 1933 the Class I railroads as a group will approximately cover all their fixed charges, whereas in 1932 there was a deficit, before any dividends, of $153,000,000.

Reports of 27 leading public utility systems supplying electricity, gas, etc., showed a combined net income of $147,351,000 in the twelve months ended September 30, 1933, as compared with $194,764,000 in the twelve months ended September 30, 1932, a decline of 24.4 per cent.

The Story of Assignats and Greenbacks

In the history of monetary and credit inflation, there are three examples of outstanding importance, viz: the French assignats of 1790-96, the American greenbacks, which were an inconvertible currency from 1861 to 1879, and the issues of all the countries involved in the world war, 1914-1918, with subsequent issues resulting from the war conditions. There have been many other examples of inconvertible currencies, and particularly of bank currencies of uncertain values; the United States in earlier years had much experience with the latter; but prior to the great war the assignats and greenbacks had afforded the most striking illustration of the danger inherent in governmental issues of currency, whether to pay governmental expenses or to stimulate business.

When the United States ventured upon its greenback issues, the "assignat" currency, to most persons was only a remote historical incident, but one person in the country was well informed about it, that person being Andrew D. White, then a professor of history in the University of Michigan and later to be one of the founders of Cornell University and its first President; also to have an eminent career in his country's diplomatic service. In the hard political struggle of the eighteen seventies to restore the greenbacks to the gold basis probably few men rendered more effective services than did he, but before describing them it will be pertinent to say something about the man and his qualifications to discuss public affairs and particularly money. He was graduated from Yale in 1853, having won distinction in his course. It tells something as to his personality that when he delivered his graduating oration the Governor of the State of Connecticut, Colonel Thomas H. Seymour, a well-known man of his time, was on the platform and being shortly afterward appointed United States Minister to Russia, he invited young White to accompany him as an Attache of the American legation; moreover, when White accepted, Governor Seymour made him a member of his own family at St. Petersburg. This was the young man's introduction into public affairs, and his stay in Russia was during the Crimean war.

However, White was planning to teach history, and soon resigned to pursue certain studies. He remained in Europe about three years, studying at the University of Berlin, the Sorbonne and College de France. Returning he spent the next six years as Professor of History at the University of Michigan.

In 1863 he took a vacation from teaching, on account of ill health, returning to his home in New York where, as the outcome of a convention deadlock, he was nominated for a four-year term in the State Senate, without any knowledge on his part. He took his seat in that body at the beginning of 1864, not yet 32, and thus became associated with Ezra Cornell, a fellow-senator, one of the prominent business men of the State.

The United States was just then making large grants of public lands for colleges of agriculture and the mechanic arts, under the Morrell act. Mr. Cornell was President of the State Agricultural Society and interested in the establishment of a college of agriculture, and numerous small colleges over the State sought a share of the fund. Mr. White urged that the fund be kept intact for a great university which would include not only the branches of learning for which the grant was made but all learning. He had a hard struggle

against opposing interests, but eventually Mr. Cornell was won over so completely that he not only gave his vote and support for the White plan, but offered to give $500,000 for the buildings, provided the plan was adopted and the institution located at Ithaca. The charter was adopted, the institution incorporated as Cornell University, and Andrew D. White was elected President.

It is impossible here to dwell upon his great work in the organization and upbuilding of the University. It suffices to say that he was the master builder, and that his interest and capacity for public affairs resulted in many demands upon his time outside of his University duties, including service upon commissions of various kinds, and eventually in the diplomatic service.

The first was on a Commission created by the Congress during President Grant's first term, when the Government of Santo Domingo had made overtures for annexation to the United States. A far more important one was created during President Cleveland's second term (1895) on account of the controversy between Great Britain and Venezuela over the boundary line between the latter state and British Guiana, in which the Monroe doctrine became involved and there seemed to be grave danger of war between this country and Great Britain. The Commission, of which Associate Justice Brewer, of the United States Supreme Court, was Chairman, was able to arrange for the submission of the dispute to an arbitration tribunal, which settled the controversy by a unanimous decision.

It may have been that the Venezuela arbitration had something to do with the holding of the first Peace Conference at The Hague in 1899, and without doubt Mr. White's service upon the Venezuela commission prompted President McKinley to make him the head of the United States delegation to that Conference.

The most important work of this Conference was the adoption of a plan for a World Court of Arbitration, which court has since been developed into the present Court of International Justice at The Hague.

In 1879 President Hayes appointed Mr. White to be Minister to Germany and he held the post for about two years. In 1892 President Harrison appointed him Minister to Russia, which position he held about two years. In 1899 President McKinley appointed him Ambassador to Germany, at which post he remained about six years.

Thus in the thirty years from 1870 to 1900, five Presidents called Andrew D. White to positions of high responsibility, in all of which he acquitted himself with honor. He was active in many less conspicuous public capacities, as in educational, scientific, benevolent and other organizations for social betterment. He was an author of distinction; the London Times reviewing his "History of the Warfare of Science with Theology" said that it belonged in a class with the histories of Buckle and Draper, the best known works on kindred subjects. He was a man of broad learning and sympathies, and one of the outstanding men of his time.

The Greenback Question

Mr. White was an historical scholar in money, economics and government, and experienced in administrative and business affairs. He knew the fundamental principles underlying all economic relations. On his first visit to Europe, during his studies in Paris, he became interested in the experiences of France with paper money and informed himself thoroughly upon them, making copious notes for use in teaching history, and bringing home specimens of the currencies. During his term in the New York Senate he delivered a speech on the subject, warning against the increasing issues of greenbacks and describing the French experience.

The act pledging the government to the resumption of gold payments on January 1, 1879, was passed in 1874, but as the depression which began with the panic of 1873 deepened, a demand arose for the repeal of this act, and for further issues of paper money, and a continual struggle to that end was kept up until resumption became an accomplished fact. There was a lack of informed discussion of the subject, and in 1876, with Congress in session and this subject of acute interest, several members of the Senate and House, headed by Gen. James A. Garfield, who in 1880 was elected to the Presidency, invited Mr. White to prepare and read a paper before a private company of members of both houses in Washington. This was done and the paper was soon afterward used as an address before the Union League Club New York, which gave it publicity. Writing a preface to a reprint in 1912, he said of it:

> Various editions of the paper were afterward published, among them, two or three for campaign purposes, in the hope that they might be of use in showing to what folly, cruelty, wrong and ruin the passion for "fiat money" may lead.
>
> Other editions were issued at a later period, in view of the principle involved in the proposed unlimited coinage of silver in the United States, which was, at bottom, the idea which led to that fearful wreck of public and private prosperity in France.

A lengthy review of the book was given in the December, 1921 and January, 1922 numbers of this publication, and we can give only brief extracts from it here.* It was devoted mainly to an account of the "assignat" cur-

(*) A new edition of the book "Fiat Money Inflation in France," is being brought out by D. Appleton & Company, New York. Price $1.00.

rency, so known because of the lands which had been assigned for its security. He explained that these issues were based on one-third of the entire landed property of France, on the very choicest of real property in city and country — the confiscated estates of the Church and of the fugitive aristocracy. These land values were expected by the advocates of the plan to maintain the value of the currency, without provision for convertibility into coin, a fallacy common to paper money schemes.

He showed by quotations from the debates in the French Assembly that the French legislators were not ignorant of the dangers of irredeemable money. They had had bitter experience with the issues of John Law's bank 70 years before.

He continues:

> But the current toward paper money had become irresistible. It was constantly urged, and with a great show of force, that if any nation could safely issue it, France was that nation; that she was fully warned by her severe experience under John Law; that she was now a constitutional government, controlled by an enlightened, patriotic people;—not, as in the days of the former issues of paper money, an absolute monarchy controlled by politicians and adventurers; that she was able to secure every livre of her paper money by a virtual mortgage on a landed domain vastly greater in value than the entire issue; that, with men like Bailly, Mirabeau and Necker at her head, she could not commit the financial mistakes and crimes from which France had suffered under John Law, the Regent Duke of Orleans and Cardinal Dubois.
>
> Oratory prevailed over science and experience. In April, 1790, came the final decree to issue four hundred millions of livres in paper money, based upon confiscated property of the Church for its security.

The first notes bore 3 per cent, a cautious provision against over-issue, the theory being that if there were more than required by the needs of trade a portion would be withheld from circulation for the interest. The result verified the assertion that there is no such thing as an over-issue of money in the opinion of the time. The first issue, considered ample and possibly too large, gave a temporary fillip to trade, but within three months the cry went up for more. On the 27th of August, 1790, a committee of the Assembly, with evident reluctance, reported in favor of another issue. It said that there was danger in the issue of paper money, but that the situation was critical, and "we must save the country."

On the 29th of September, 1790, by a vote of 508 to 423, a bill for the second issue of assignats, 800,000,000 livres, double the amount of the first issue, passed the Assembly. The interest feature was dropped, but a pledge was given that no more would be issued. This pledge was violated by another bill, on June 19, 1791, for 600,000,000 more. The situation a year later is described as follows:

> On the last day of July, 1792, came another brilliant report from Fouquet, showing that the total amount of currency already issued was about twenty-four hundred millions, but claiming that the national lands were worth a little more than this sum. A decree was now passed issuing three hundred millions more. By this the prices of everything were again enhanced save one thing, and that one thing was labor. Strange as it may at first appear, while the depreciation of the currency had raised all products enormously in price, the stoppage of so many manufactories and the withdrawal of capital caused wages in the Summer of 1792, after all the inflation, to be as small as they had been four years above—viz, fifteen sous per day. No more striking example can be seen of the truth uttered by Daniel Webster, that "of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with paper money."

It was characteristic of the assignats, as of the German marks of 1918-23 and other depreciating currencies, that the decline in value exceeded the increase in quantity, so that the repeated issues did not relieve the apparent scarcity, and money became increasingly hard to get. Credit became almost unobtainable, new loans out of the question and interest rates fantastic. The authorities were in the grip of conditions from which they did not know how to escape.

The amount of assignats at last outstanding was approximately 40,000,000,000, by which time they had sunk in value so low that no effort was ever made to redeem them. Their legal tender quality was withdrawn and they were simply abandoned as worthless.

The Depression of 1873-79

Whenever reference is made to past experiences with inconvertible paper money such as the French assignats or the 1914-24 issues of Germany and other European countries, the advocates of a new venture in that line are quick to protest that no such experience could possibly happen to the United States.

Andrew D. White was not only informed upon all conditions attendant upon the issue of the French assignats, but familiar with the effects of the greenback issues in the United States from 1861 to 1876 when he uttered the warning that further issues of the latter would be only following in the footsteps of France.

Moreover, the conditions attendant upon the issues of greenback currency in 1863-65 and existing in the boom period 1867-73 and the depression years 1874-79 have been practically repeated in the experiences with credit inflation from 1914 to 1929 and with the panic and depression since. Whether on or off a metallic basis, the essence of inflation is the abnormal stimulus given by new supplies of money and credit in excess of the amounts required to handle business at a stable price level. Such supplies were created during the civil war by issues of inconvertible currencies, and in 1915-1929 in the form of bank credit based upon great importations of gold that would have been impossible but for the war. In the two cases the effects were of the same general character.

The greenbacks were issued as a war measure, prompted by the seeming impossibility of raising money fast enough by taxation and loans to supply the needs of the Government. The proponents of the original issues frankly avowed them to be in effect a forced loan, without interest, but the only means by which the Government could carry on the war. The legal tender clause was inserted to enable the recipients to pass them on. The notes were promises to pay "dollars" and "dollars" was understood to mean the coined dollars of the country. Moreover, the early issues were convertible into six per cent bonds at the will of the holder, which was an assurance that if the credit of the Government was maintained they would be eventually worth par and that if issues proved to be excessive the excess would be converted and retired. The convertible clause was eliminated later because it was found that it was interfering with direct market loans, which were still necessary because excessive issues of the greenbacks were causing them to depreciate, thus increasing the cost of the war and giving warning that there was an end to that kind of financing.

The political issue arose after the panic of 1873 had ended the inflation bubble and the people had awakened to find themselves faced with a burden of indebtedness made at high prices and which they were called upon to pay with commodities at low prices and with unemployment and hard times throughout the land. The arguments against the payment of debts, including the greenbacks, on the pre-war gold basis were precisely the same as are heard against the gold standard today.

We have not the space in this article to review the greenback period in detail, including the depression of 1873-79, but will undertake to do that at another time, and show the instructive parallel between that experience and the experience of the late boom and the depression to date.

At this time it will suffice to say that throughout the five years from 1873 to 1879 all of the arguments in behalf of debtors and the unemployed, all of the pleas for more money in circulation, all of the warnings against impending disorder and ruin, that have been heard in the last three years were poured forth with no less fervor and ability. There is not a new argument in all of the present vocabulary.

Against this torrent, men like Andrew D. White, General James A. Garfield and a long list, whose names ever since have been a roll of honor, stood firm, because they knew they stood upon sound principles. They said that the conditions then existing were fundamentally results of the war and the issues of inconvertible paper money, aggravated by unsound policies, both public and private. They acknowledged that hardship to debtors was incidental to a restoration of the greenbacks to their face value, but said that was a part of the cost of the grim necessity which had compelled their issuance; that the nation had given its solemn pledge, repeated more than once, to meet all its obligations upon the terms set forth therein; that the terms had been known to all men from the beginning, and the only just grievance which could arise would be one based upon failure by the Government to fulfill its pledges. To depreciate the money in order to lessen all private indebtedness, without discrimination, would be favoritism to debtors at the expense of creditors, although all had had equal knowledge of the Government's policy, and that this would be a hasty and unwarranted action. They scorned a policy of expediency which meant national dishonor, but at the same time insisted that the real expediency was in giving the country a sound monetary basis upon which to do business. They said that the representations that prosperity could not be regained or debts paid without repudiating the nation's promises were based wholly upon assumption and unsound premises; that in truth the path indicated by honor and time-tried principles was the only road to prosperity.

Their arguments were as earnest and sincere as those of their opponents—there is no reason to doubt the sincerity of the great mass of the advocates upon either side—and had a much sounder basis, as the sequel showed. Never were forebodings and prophecies more completely refuted than were those of the opponents of resumption by the events which followed.

Gold payments were resumed on January 1, 1879, without difficulty and the depression passed away. The following decade was the greatest for industrial development ever known up to that time in the history of this country. More miles of railroad were built from 1880 to 1890 than in any like period to this time, and production in all lines developed in like manner. Industrial wages increased in that period, on the average, approximately 8 per cent in terms of money, and, by reason of the increasing efficiency of the industries, much more than that in purchasing power. Employment recovered to a normal basis; real estate values, both city and country, advanced; agriculture recovered and expanded; the greenback party faded away.

The following census figures (see Statistical Abstract) afford indubitable evidence of improving conditions after 1880 (when improvement was already under way). The rise of farm values tells of relief from the pressure

of mortgage indebtedness, and in this connection it should be considered that interest rates were undergoing a general decline. Also it should be considered that the rise of farm values was despite the opening of new lands to settlement, as the result of the remarkable showing of railroad construction:

Farm and General Statistics 1880—1890

	1880	1890	Change in Percent
Total Population	50,156,000	62,948,000	+25.5
Improved Land in Farms (acres)	284,771,000	357,617.000	+25.6
Value of All Farm Property (dollars)	12,180,502,000	16,082,268,000	+32.0
Value of All Farm Property (dollars per farm)	3,038	3,523	+16.0
Value of All Farm Property (dollars per capita of rural pop.)	340	396	+16.5
Total Wealth of U. S. $	43,642,000,000	65,037,000,000	+49.0
Per capita Wealth in U. S. $	870	1,036	+19.1
Railroads: (Miles in operation)	93,267	167,191	+79.3

Sources: Bureau of Census
Statistical Abstracts of the United States.

Immigration Figures

In the years before important restrictions were placed upon immigration, the arrival of immigrants closely reflected the demand for labor and general state of business. In the five years 1870-74, the average number arriving yearly was 391,000. It declined to 313,000 in 1874, 227,000 in 1875, 170,000 in 1876, 142,000 in 1877 and 138,000 in 1878; then rose to 178,000 in 1879, 457,000 in 1880, 669,000 in 1881, 788,000 in 1882 and averaged 419,000 in the following seven years of the decade.

Agricultural Development

It may be added that inasmuch as the 80's was a period of railroad expansion and agricultural development in other new countries, notably Russia, Canada, Argentina and Australia, an increase in the production of farm staples resulted, which brought about another decline of prices in the nineties. This, however, is another chapter, to which we will give attention at another time.

The Conditions of the Seventies

That the conditions of the eighteen-seventies were very similar to present conditions is shown from the following extract from his autobiography which also shows his own sympathetic consideration for the hardships of the time. He opposed further issues of the greenbacks because he knew that relief must come by a different policy. He says (Vol. 1, p. 182):

> **But in the political campaign of 1878 I could not but be interested. It was different from any other that I had known, for the "Greenback Craze" bloomed out as never before and seemed likely to poison the whole country. Great hardships had arisen from the fact that debts which had been made under a depreciated currency had to be paid in money of greater value. Men who, in what were known as "flush times," had bought farms, paid down half the price, and mortgaged them for the other half, found now, when their mortgages became due, that they could not sell the property for enough to cover the lien upon it. Besides this, the great army of speculators throughout the country found the constant depreciation of prices bringing them to bankruptcy. In the cry for more greenbacks,—that is, for continued issues of paper money,—demagogism undoubtedly had a large part; but there were many excellent men who were influenced by it, and among them Peter Cooper of New York, founder of the great institution which bears his name, one of the purest and best men I have ever known.**

It is a basic doctrine of democracy under representative government that while the average person cannot be expected to be fully informed upon all questions requiring governmental action, he is competent to choose persons to represent or advise him; and the reader who has any misgiving about his own understanding of this subject may well consider that the judgment and prescience of Andrew D. White were completely vindicated by the course of events after this country's return to the gold basis in 1879.

Present Day Opinion at Cornell

Conflicting opinions upon monetary theories are coming from Cornell University in these days, some of the arguments in full harmony with those of its illustrious founder, others supporting the very theories he opposed. The University does not restrict the freedom of its staff in the discussion of public policies, and the arguments are entitled to be judged upon their merits.

Professor Harold L. Reed is the present head of the economics department of the College of Arts and Sciences of Cornell University, a position which rotates among the six professors of that department.

Professor Reed is well-known as a specialist upon money and banking, and is a member of the New York State Banking Board, an official body. Professor Reed's views upon the proposition to devaluate the dollar were expressed at length in the New York Herald-Tribune of February 12, 1933, with reasoning so clear and conclusive that little more need be said. Our space is so limited that we can do little more than show that it is fully in harmony with our own discussion of the subject under "Money and Banking" in this number. In regard to the effect of devaluation upon domestic prices, disregarding for the moment foreign exchange relations, he refers to the probable effects of creating more "dollars" of bank credit on the basis of present gold reserves. He sums up this phase as follows:

> **The advocates of the plan cannot be permitted therefore to assume without proof that a re-definition of the gold redemption value of the dollar would automatically raise prices. Aside from the exceptions noted, lowering the gold content of the dollar would**

not of itself produce, under existing conditions, any increase in the money incomes of the spending public; nor would it lead existing holders of credit or currency to utilize their funds any more rapidly. There is no warrant for assuming that the fundamental factors determining prices would be favorably influenced. All that can be said in regard to the price-lifting effects of the proposal is that it might be an adjunct of an inflation program in which dependence is first placed on other forces. But at the present time gold is not restricting credit expansion. Under these conditions it would be fantastic, to say the least, to assume the risks inherent in the plan to tinker with the gold content of the dollar.

Passing to the probable effects of devaluation upon our foreign trade, he shows that while lowering the value of our money in exchange relations undoubtedly would induce foreign purchases if all other conditions remained unchanged, all related conditions inevitably would change, until a new equilibrium was established. We already know that at this time all nations are disinclined to increase their imports from us, and are adopting various methods for reducing the quantities they have received from us. We cannot force our exports upon them against their will. If necessary, they can defeat such a purpose by reducing the value of their own currencies, and Professor Reed emphasizes that this is one of the most serious dangers to which we would be subjecting ourselves, in company with the whole world. He says:

Analyze the problem as you please and the foreign consequences must be to encourage the various nations to engage in a race to depreciate their currencies at the fastest pace. Stability in world trade is not to be secured in this way. To propose that the nation which with France occupies the strongest position of all countries in the world should depreciate the gold value of its money is strange doctrine indeed. Gold depreciation should be the fate of the weak, not of the strong, currencies of the world.

Furthermore, he attacks the devaluation advocates on their chosen ground. It is urged as an economic theory especially suited to the needs of agriculture, but correct economic theories apply alike everywhere, like the multiplication table. Unsound economic theories serve no legitimate interest.

It is pertinent to what Professor Reed says on this point, that our own Government is even now under heavy pressure from American producers to adopt quotas or prohibitions against the products of other countries whose currencies are depreciated. The Professor believes that this tendency must be checked and a policy adopted for the enlargement of world trade, or conditions everywhere will grow worse, instead of better. This is the policy that was urged by Secretary of State Hull at the London Conference and which undoubtedly he will advocate before the Pan American Conference that he is announced to attend at Montevideo, sailing this month. Professor Reed, pursuing his own argument on this line, says of the proposal to devaluate the dollar and the effect it would have upon our agriculture:

I say the final consequence would be further restriction of foreign trade, because the temporary success of one country would call into use added exchange restrictions, import quotas and all the rest of the import prohibitions.

This is a state of affairs which agriculture certainly should not encourage. A part of the existing agricultural plant investment assumed larger foreign outlets than are now available, and if these foreign markets cannot be restored by our permitting foreign countries to obtain through their exports the necessary dollar credits to pay for purchases of agricultural products this part of the agricultural plant will have to be written off for good. The sooner agriculture recognizes that its special need is for the resumption of world trade the better it will be for agriculture. Failing a pick-up in inter-country trade, agriculture will have to depend solely upon such betterment as may be imparted to it by a previous revival of urban business and employment in this country.

We still have a large export business, aggregating $1,104,000,000 in the nine months ended with September 1933, and any further reduction of this means increased surpluses in our home markets. We should endeavor to restore the normal interchange of products.

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